

STATE OF CALIFORNIA

KATHLEEN CONNELL,
Controller of California

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OFFICE OF STATE CONTROLLER
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DATE: January 19, 2001

PAYROLL LETTER #01-003
CSU ONLY

TO: All Campuses in the Uniform State Payroll System

FROM: RALPH ZENTNER, Acting Chief
Personnel/Payroll Services Division

RE: FRINGE BENEFIT/EMPLOYEE BUSINESS EXPENSE REPORTING COMPLIANCE
PROJECT

This Payroll Letter provides information regarding the California State University (CSU) Fringe Benefit/Employee Business Expense (FB/EBE) Compliance Project and related compliance updates.

FB/EBE COMPLIANCE PROJECT OBJECTIVES

CSU entities (campuses and the Chancellor's Office) must satisfy the following three tax requirements:

- 1) Report all taxable FB/EBEs provided employees as identified in the Payroll Procedures Manual (PPM) I 120 - 175;
- 2) Report all FB/EBEs based on "constructive receipt". Taxable/reportable FB/EBEs must be reported when the employee is reimbursed and/or receives the benefit/value. All FB/EBEs must be reported to this office by the 10th of the month following the month an employee receives the FB/EBE. For example, the value of an employee's Personal Use of a State Vehicle in January 2001 must be reported by February 10th, 2001.
- 3) Report all FB/EBEs accurately.

OVERVIEW

Two thousand (2000) marked the fifth year of the State's efforts to secure and maintain federal and state employment tax compliance requirements. The 2000 project results continue previous performance trends - increased compliance and a general reduction in targeted noncompliance performance.

PROJECT IMPROVEMENTS

CSU improved compliance with Federal and State tax requirements since 1996 as illustrated by the following:

Taxable FB/EBE wage reporting increased 54% from

\$1,425,733 to \$2,235,564.

The number of benefits reported in 2000 versus 1996 increased from 127 to 190; 20 entities (83%) reported more benefit types in 2000 than in 1996. Nineteen campuses stabilized their reporting patterns and surge reporting decreased.

Fifteen campus on-site consultations were conducted at 13 campuses since 1996; two in 2000. Two Accounts Payable Forums were sponsored by the Chancellor's Office, at which the Internal Revenue Service, Franchise Tax Board and the State Controller's Office were prominent presenters. All Payroll and Accounts Payable offices receive the Payroll Procedures Manual and Payroll Letters are available via the Internet.

In 1999, the Payroll Input Process (PIP) was expanded to accommodate eleven new FB/EBEs available to CSU employees: Aircraft Reimbursement, Bicycle Mileage, Call Back Mileage, Remote Headquarters Mileage, Educational Assistance, Entertainment Expenses, Electronic Devices, Miscellaneous Incentive Program, Long Term Travel, Tips and Gratuities. In 2000, CSU campuses paid over \$33,000 via three of these additional PIP payments.

COMPLIANCE ISSUES

The following represent compliance problems wherein sustained corrective measures are required:

Three campuses maintain sporadic reporting patterns;

Benefits, specifically Moving/Relocation Expenses and Moving Expense Mileage, are routinely reported at the end of the calendar year versus when the benefit is received;

Several benefits are underreported: Meals for Travel Less than 24 hours Without Lodging; Personal Use of a State Vehicle; Electronic Devices; Dues and Memberships; and Meals - Nontravel.

PIP remains under utilized as an FB/EBE payment option.

FEDERAL DEVELOPMENTS

The Internal Revenue Service's (IRS) reorganization is nearly complete. State and local governments now fall under the authority of IRS's new Tax Exempt/Government Entities Division (TE/GE). This division develops the overall compliance strategies and goals to enhance/achieve compliance. The division likewise develops, implements and evaluates governmental examinations (audits) and procedures.

Under the new reorganization, the Public Employer Tax Compliance (PETC) project resides within TE/GE as does the data to readily profile, target and aggressively address public sector employer performance and compliance issues. For example, the state of Massachusetts was the first state profiled in 2000 by TE/GE wherein noncompliant Employment Tax practices produced a \$31 million assessment. Clearly, the IRS is well positioned to effectively address program issues and service its clients via the streamlined customer clustered alignment.

BUREAU OF STATE AUDITS (BSA)

Special BSA audits conducted in 2000 underscore the need for ongoing FB/EBE program audits. These audits revealed unique campus concern and program oversights including: recurring staffing issues; inadequate training; and campus logistical problems - getting information from recipients to the reporting centers. To sustain and maintain voluntary compliance, ongoing FB/EBE program audits are needed.

ANNUAL COMPLIANCE ACTIVITIES

The CSU has improved its FB/EBE compliance as indicated by stabilized reporting patterns, shortened implementation of reporting curves, increased reporting and reduced volume of late reporting. These trends and achieving Statewide educational goals permit the cessation of the State Controller's Office lead role in administering annual FB/EBE Compliance Projects.

This office will continue providing technical support on tax issues and monitoring FB/EBE tax compliance. We shall assist the CSU and the Chancellor's Office in any subsequent compliance processes for 2001 and thereafter.

If you have any questions/concerns regarding this information, please contact Carol Sullivan via phone at (916) 322-8072/CALNET 492-8072 or via e-mail (csullivan@sco.ca.gov).

RZ:CS:TSS